Bob Manning
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Chairman Nesbitt and distinguished members of the committee, thank you for the opportunity to speak to you today. My name is Bob Manning, and for 16 years I headed the energy programs for H-E-B Grocery Company in Texas, where we had utility expenses up to $150 million per year and a peak electric load of 200 MW. For context, if we had been in Michigan that load would make us one of the state's largest consumers, like General Motors and others.

For 7 years, from 1999 – 2006, I also represented commercial consumers on the board of directors of the Electric Reliability Council of Texas, our equivalent of your Midwest ISO. During this time our competitive retail market rules were being developed, and I got to see first-hand the complexity of managing a so-called "deregulated market."

As an aside, my daughter Dr. Janessa Manning began her post-doctoral work 4 weeks ago at Wayne State University in the field of perinatal neuro-imaging autism research. I expect to be spending more time in your fair state, and it may become a "second home."

I am an avid supporter of competition. It drives innovation and eliminates waste, which in most instances should improve quality of life and economic well-being for consumers. We supported implementing retail electric competition in Texas, as a means to bring these benefits to ourselves and to our own customers. You are contemplating similar legislation. Coincidentally, our electric load for 300 stores was equally divided between areas subject to competition and areas not subject to competition; as a result we were able to directly compare our experiences from both types of market design. I want to address three important topics, namely costs, complexity, and impacts on consumers.

<u>Cost:</u> In the late 1990's when the Texas legislature was debating electric deregulation, virtually every supporter, including legislators, utilities, trade associations, and consumer groups, agreed that the <u>only persuasive rationale</u> for moving forward was to create a competitive marketplace where all customers would benefit from lower rates. Unfortunately, that is not what happened. Natural gas is the "marginal" fuel in Texas, and in Michigan, that largely sets electric power prices, and when gas prices began climbing in 2004 so did competitive electric rates. Meanwhile, regulated municipal utilities were operating under a cost-of-service business model and maintaining a more balanced generation fuel portfolio that allowed rates to rise only modestly, if at all.

I can only speak with complete authority about the financial impact on the company that employed me at the time, and during the first decade of Texas deregulation we spent <u>many tens of millions of extra dollars</u> for the privilege of buying competitive power compared to regulated power.

But it is no secret that all consumer classes ended up paying much more than expected for electricity. It has often been claimed that the large numbers of customers who have exercised choice by switching suppliers is proof that the competitive market in ERCOT is delivering value as promised. The sad truth is that many Texas consumers spent a decade switching suppliers in a hopeless search for the rates they were paying before deregulation happened. While natural gas prices have recently fallen to levels where there is little difference in electric power prices between regulated and non-regulated, there is no guarantee that they will remain low. And consider this – electric rates in deregulated areas are not determined by free market forces, but by the world price of natural gas.

<u>Complexity:</u> Next I want to share some thoughts about how "deregulated" a competitive retail electric market really is. The Texas market is correctly judged by many to be the most open, effective, and transparent retail market in the nation. ERCOT's board of directors is comprised of a good blend of independent directors, consumers, cooperatives, generators, power marketers, retail electric providers, investor-owned transmission and distribution providers, and municipally-owned electric utilities. However, the ERCOT board is overseen by the Public Utility Commission, which in turn is overseen by the state legislature – and all of this oversight often manifests as interference rather than assistance, particularly during times of outage events. In addition, Texas has had two market designs since 2002, and <u>the current version of the market rules is over 1000 pages long</u>, including 77 pages of definitions and acronyms. The protocols have been amended over 500 times by the board, with most of the revisions intended to "shift bags of gold" from one stakeholder group to another, except that consumers are seldom the beneficiaries.

<u>Impact on Customers:</u> Finally, I want to share a comment about the overall customer experience from electric deregulation, aside from rates. The electric industry is complex under any market design, but current models transfer much of that complexity onto the backs of customers. From the perspective of a business whose core competency is selling groceries, or making cars, or whatever, what used to be a single point of contact into the utility industry for every question from billing to outage updates now requires learning to contact multiple organizations for the same answers. And if customers ignore the purchasing choices that need to be made in a competitive market, the result is almost certainly higher costs than if they spent the time to learn a new topic. If you have friends or acquaintances who operate businesses or own homes in deregulated areas of Texas, ask them how they like it.

In closing, let me repeat . . . I believe in competition. But due to my direct experiences with cost, complexity, and the impact on customers I am no longer convinced that "deregulation" benefits the majority of consumers. It is a risky undertaking that adds a great deal of complexity to the consumer experience without any realistic expectation of lowering their costs or improving reliability. Your state's ratepayers would benefit more from improvements in your current market framework. Two examples - improve market incentives for innovation and efficiency, and directly reward all consumers who can reduce power usage in times of peak demand.

Chairman Nesbitt and distinguished members of the committee, thank you for your service to Michiganders, and now I am happy to take any questions.